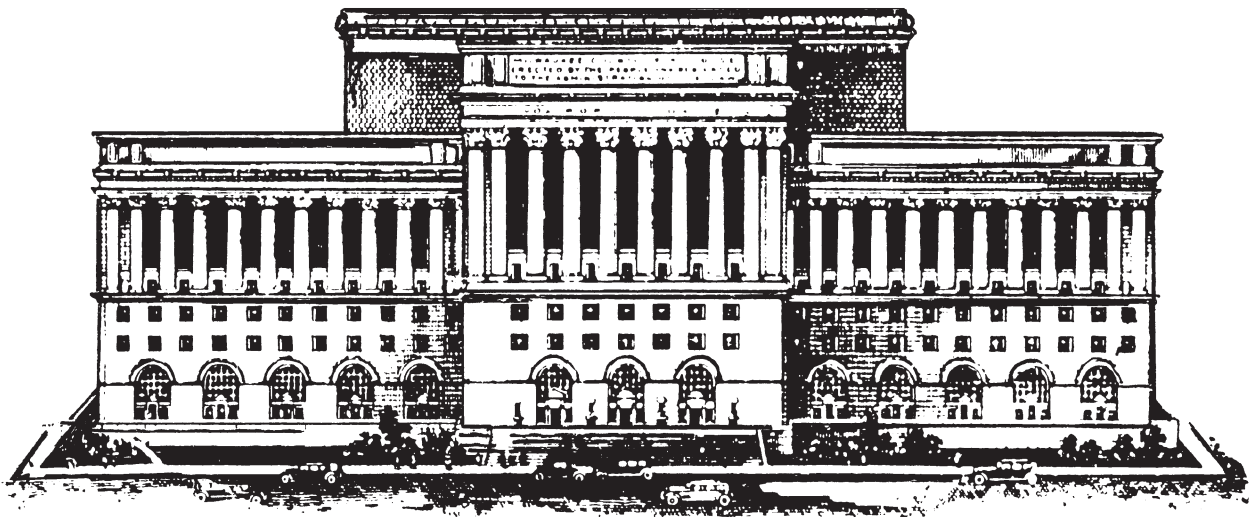


COUNTY OF MILWAUKEE, WISCONSIN



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2008

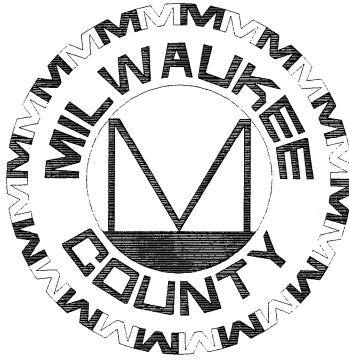
COMPREHENSIVE ANNUAL FINANCIAL REPORT

COUNTY OF MILWAUKEE

WISCONSIN

FOR THE YEAR ENDED DECEMBER 31, 2008

Prepared by:
Department of Administrative Services
Fiscal Affairs Division



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COUNTY OF MILWAUKEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2008

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COUNTY OF MILWAUKEE

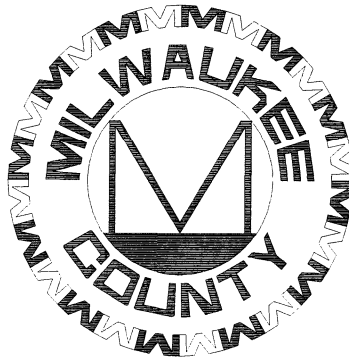
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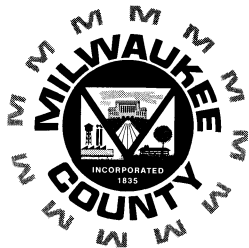
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INTRODUCTORY SECTION

- **Letter of Transmittal**
- **Certificate of Achievement for Excellence in
Financial Reporting**
- **Organizational Chart**
- **List of Elected and Appointed Officials**



MILWAUKEE COUNTY EXECUTIVE SCOTT WALKER

Milwaukee County

DEPARTMENT OF ADMINISTRATIVE SERVICES

CYNTHIA ARCHER, DIRECTOR

STEVEN R. KREKLOW, FISCAL AND BUDGET ADMINISTRATOR

July 23, 2009

To: Honorable Members of the Milwaukee County
Board of Supervisors and the Citizens of
Milwaukee County, Wisconsin

A) COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):

CAFR Overview

The Comprehensive Annual Financial Report (CAFR) of Milwaukee County, Wisconsin (the County) for the year ended December 31, 2008 is hereby submitted for your information. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of Milwaukee County, Wisconsin. All disclosures necessary to enable the reader to gain an understanding of Milwaukee County, Wisconsin activities have been included.

The CAFR is presented in three sections:

The **Introductory Section**, which is unaudited, includes this letter of transmittal, the prior year's Certificate of Achievement for Excellence in Financial Reporting, the County's organization chart, and a list of the County's principal elected and appointed officials. It is designed to give the reader of the financial report some basic background information about the County.

The **Financial Section** includes the independent auditors' report on the basic financial statements, management's discussion & analysis, the basic financial statements, required supplementary information, and the other supplementary information including the combining and individual fund financial statements and schedules. See a discussion below of the components of the Financial Section.

The **Statistical Section**, which is unaudited, includes selected financial and demographic information generally presented on a multi-year basis.

Financial Section Overview

The County has prepared the Financial Section to meet the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). Other Supplementary Information, section 4 below, is not required by GASB 34 but provides useful information about the non-major funds of Milwaukee County.

- 1) **Management's Discussion and Analysis** - a narrative report providing financial information about the County. Readers of this report are encouraged to read the Management's Discussion and Analysis (MD&A), in conjunction with this Letter of Transmittal. The MD&A provides basic financial information about the County and an overview of the County's activities.
- 2) **Basic Financial Statements**
 - a) **Government-Wide Financial Statements** - government-wide financial statements, consisting of a statement of net assets and a statement of activities, provide a comprehensive financial picture of the County, split between governmental activities and business-type activities. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, where all assets, liabilities, revenues, and expenses of the County are reported. Internal service funds are combined with governmental activities for presentation purposes.
 - b) **Fund Financial Statements** - report on the major individual governmental, proprietary, and fiduciary funds of the County. Budgetary comparisons are also provided to allow the reader to see the original adopted budget, the revised adopted budget, and the actual expenditures and revenues for the County's general fund. The governmental funds are prepared and presented on the modified accrual basis of accounting. The proprietary funds are prepared on an accrual basis of accounting. With the governmental funds having a different basis of accounting between the government-wide financial statements and the fund financial statements, a schedule is provided that reconciles these accounting differences. The reconciliation provides a bridge between governmental activities on the statement of net assets with the governmental funds on the balance sheet and the governmental funds net change in fund balances on the statement of activities with the governmental funds statement of revenues, expenditures and changes in fund balances. The proprietary funds statement reports on each of the enterprise

funds and includes a separate column that combines all internal service funds.

- c) **Notes to the Financial Statements** - explanatory notes to the financial statements as required by governmental accounting standards.
- 3) **Required Supplementary Information** - required schedules of supplementary data immediately after the notes to the financial statements.
- 4) **Other Supplementary Information** - identified as the Other Supplementary Information – Combining and Individual Fund Statements and Schedules. This section will show the combining statements for the non-major governmental funds, the internal service funds, as well as budgetary comparisons for major funds other than the General Fund. As noted earlier, the internal service funds were combined and reported as a separate column in the proprietary fund financial statements. They are presented here because they are not considered to be major funds.

Component Units

This Comprehensive Annual Financial Report (CAFR) includes the funds of the primary government and the following discrete component units: the War Memorial Center, the Milwaukee Public Museum, Inc., the Marcus Center for the Performing Arts, and the Milwaukee County Research Park Corporation.

Discretely presented component units are more distinctly separate from the primary government and are therefore reported in a separate column in the government-wide financial statements. These entities are included because generally accepted accounting principles require that organizations for which the County either has a financial responsibility or governance influence, such as board appointments, be reported with Milwaukee County.

B) GOVERNMENTAL STRUCTURE AND TYPES OF SERVICES

Milwaukee County is located in southeastern Wisconsin on the Lake Michigan shoreline. The County covers an area of approximately 242 square miles and consists of ten cities and nine villages. The Michigan Territorial Government incorporated Milwaukee County in 1835. In 1837 the Wisconsin Territorial Legislature divided Milwaukee County and reduced its size. Nine years later the County was divided again into its present size.

Milwaukee County was the first county in the State to establish an executive branch. A County Executive and a 19-member Board of Supervisors govern Milwaukee County. The County Executive and the County Supervisors are elected to nonpartisan four-year terms. Each Supervisor is elected from a district with an average population

of approximately 49,000. In addition, six constitutional officers are elected to serve two-year terms on a partisan basis. The Sheriff is elected to serve a four-year term on a partisan basis.

The County Board determines County policy and directs the activities of County government by the adoption of ordinances and resolutions, under authority vested in it by State Statutes. At its meeting in November of each year, the Board adopts the next calendar year's budget. It meets on a monthly basis to transact official business, and its committees meet regularly during the monthly cycles to hold hearings, gather information and take testimony preparatory to making recommendations to the full County Board.

The County operates two airports, a mass transit system, a behavioral health facility, a correctional facility, a sheriff's department, a civil and criminal court system, a zoo, a botanical garden, a nature center, several marinas, several golf courses, swimming pools, beaches, bike trails, and park areas.

The County also administers Federal and State public assistance programs. Other activities include employment and training services, legal counsel services for the indigent, community health care programs, emergency medical services, medical service funding for the indigent, correctional programs and counseling and residential programs for the mentally ill, disabled, and chemically dependent. The County is also responsible for the maintenance and construction of highways, roads, and bridges. In addition, the County also offers a number of general government services.

C) ECONOMIC CONDITION AND OUTLOOK

Milwaukee County serves as the population, economic and financial center of the State. The City of Milwaukee, which acts as the County seat, contains approximately 64 percent of the County's population and 48 percent of its taxable property value.

Milwaukee County's location on Lake Michigan, near the nation's geographic center and in close proximity to the Chicago metropolitan area, provides many logistical advantages. The County has a well-developed arterial street and highway system, including four interstate highways, three major U.S. highways and 17 state highways. Reconstruction of the Marquette Interchange-the heart of the southeastern Wisconsin freeway system- was finished in 2008 and major reconstruction on I-94 from Milwaukee to Illinois is expected to begin in 2009.

Freight service is provided to other metropolitan areas by numerous trucking establishments and two major railroads, the Union Pacific and Canadian Pacific. Passenger rail service is available from Amtrak and national and inter-city bus lines serve Milwaukee County. Milwaukee is also a major Great Lakes port. During 2008, the Port of Milwaukee handled approximately 3.1 million tons of materials. Major commodities included in this tonnage were coal, salt, grain and cement. Port traffic from 2004 to 2008 increased 23 percent in comparison to traffic from 1999 to 2003.

Innovation Fuels, a New York-based renewable fuel company that manufactures, markets and distributes biodiesel fuel to customers around the world, recently acquired a 310,000 barrel (43,000 metric tons) capacity terminal located on ten acres in the Port of Milwaukee. This facility will be used for the sale and distribution of biodiesel and other renewable fuels into and out of the Midwest. The Port is also home to Lake Express, which operates a high-speed auto/passenger ferry service between Milwaukee and Muskegon, Michigan.

Like many urban areas in the Northeast and Midwest, the regional economy is transitioning towards a service-based economy. While the Milwaukee metropolitan area is well known as a manufacturing center, manufacturing employment has declined by 13.4 percent from 2001 to 2006 and total employment in the Milwaukee region declined by only 1.8 percent during the same time period. Sectors demonstrating the highest growth in employment in recent years are education, health, leisure and hospitality, and professional and business services. The growth of employment in the service sectors combined with the decline in manufacturing employment, suggests that the area economy is making its moving towards a service-based economy.

According to the first quarter business outlook survey by the Metropolitan Milwaukee Association of Commerce (MMAC), Milwaukee area businesses have indicated limited expectations toward growth prospects in 2009. Thirty-two percent of businesses surveyed see sales increases in 2009, 32 percent predict profit gains, 26 percent expect employment growth for their local operations and 31 percent expect no change in employment.

While the national economy has experienced declining employment rates, the County's seasonal unadjusted employment rates remained relatively stable throughout most of 2008. Monthly unadjusted unemployment rates during 2008 fluctuated between 4.9 percent and 6.5 percent. The average annual unemployment rate for Milwaukee County through December 2008 was 5.9 percent compared to the national average of 6.5 percent. This also represents a 0.1 percent decrease from last year's rate.

According to the Wisconsin Department of Administration, Demographic Services Center, Milwaukee County's population for 2008 totaled 938,490, a decrease of approximately 1.3 percent from the 2007 population estimate.

Milwaukee County is also home to a number of colleges and universities, including Alverno College, Cardinal Stritch College, Marquette University, the Medical College of Wisconsin, Milwaukee School of Engineering, Mount Mary College, University of Wisconsin-Milwaukee, and Wisconsin Lutheran College.

D) MAJOR INITIATIVES BY CLASSIFICATION

The following is a brief description of the departments and major initiatives for the classifications within both the Governmental Activities and Business-type Activities of the Statement of Activities.

Governmental Activities

- 1) **Legislative, Executive, and Staff** consists of the following areas, the County Board, the Office of Community Business Development Partners, the Department of Audit, the County Executive, the Department of Administrative Services, the Office for Persons with Disabilities, Veterans Services, the Civil Service Commission, the Personnel Review Board, the Ethics Board, Procurement and Corporation Counsel.

The Department of Administrative Services includes Fiscal Affairs, Economic and Community Development, Human Resources, Employee Benefits and Labor Relations. In 2007, Human Resources was divided into three separate divisions: Human Resources for recruiting and centralized human resource management, Labor Relations for the negotiation and administration of collective bargaining agreements, and Employee Benefits for the management and cost containment of employee health, dental, and life insurance programs and administration of the County pension plan. In 2008 the Employee Benefits Division initiated an employee wellness and disease management program that targets services and assistance to high-end health care users in an effort to further contain costs and improve overall employee health and productivity.

The Risk Management Division and the Information Management Services Division are also under the Department of Administrative Services for management purposes. These divisions are reported as internal service funds. They are consolidated into the governmental activities in the Government-wide Financial Statements and are included in the proprietary funds in the Fund Financial Statements.

- 2) **Courts and Judiciary** consists of Combined Court Related Operations and the Department of Child Support Enforcement. State and other non-tax revenues support approximately 59.7 percent of the cost of the Courts function. The balance of the costs is funded with County tax levy dollars.

The Combined Court Related Operations consists of County Funded State Court Services Division, the Family Court Commissioner Division, the Register in Probate Division, and the Clerk of Circuit Courts. The County Funded State Court Services Division is the first judicial administrative district of the State Court System and has 47 judges and

22 court commissioners. The Family Court Commissioner Division is the legal extension of the Family Court Branch of the Circuit Court. This division conducts formal hearings in matters relating to marriage and actions affecting the family including matters related to domestic abuse and harassment. It also includes the Family Court Mediation Services Unit. The Register in Probate Division maintains the records and files of all probate proceedings and assists the courts in adjudicating matters involving probate, trusts, guardianships of persons and estates, conservatorship, protective placements, involuntary commitments, temporary restraining orders and injunctions in individuals at risk cases. The Clerk of Circuit Courts maintains the records, books and files of the circuit courts, civil, family, criminal and children's divisions; prepares the daily court calendar; and processes all cases. The Clerk of Circuit Court is also the Director of Court Services. This position summons the eligible jurors for the County-funded State Court System.

The Department of Child Support Enforcement is required by Title IV-D of the Social Security Act to provide services to locate parents, establish paternity, enforce and establish child support and medical support orders. The department monitors approximately 141,000 cases annually for the establishment and enforcement of child support obligations and maintains family court orders on the statewide support computer system.

- 3) **General Governmental Services** consists of the separately elected positions of the County Treasurer, the Register of Deeds, and the County Clerk, and their associated staff and related costs. The Election Commission is also included in this category. The County Treasurer invests County funds, handles cash receipts and disbursements, and collects delinquent property taxes. In 2008, the County Treasurer's Office implemented an online tax payment system. Recent state legislation has expanded TRIP to include the collection of delinquent property taxes. During 2009, the County Treasurer's office expects to reactivate this aggressive method of collecting delinquent property tax payments. The Register of Deeds records, indexes and optically scans real estate documents, files and indexes birth, marriage and death certificates, and sells copies of the documents recorded and filed within the department. In addition this department reviews tax descriptions, assigns new tax key numbers due to real estate boundary changes and maintains plat books and property records. The County Clerk records the proceedings of the County Board of Supervisors, produces an index of ordinances and resolutions presented to the Board, issues marriage licenses, animal licenses and passports, processes garnishment actions, tax liens and wage assignment of County employees and assists the County Treasurer in signing all County checks. The Election Commission handles all matters related to the election process within Milwaukee County.

- 4) **Public Safety** consists of the Office of the Sheriff, District Attorney's Office, Medical Examiner and the House of Correction.

The Office of the Sheriff is responsible for law enforcement, the safety and security of citizens and protection of property throughout the County. The Sheriff is a separately elected position within Milwaukee County. The Office of the Sheriff acts as an arm of the criminal justice system. In addition to providing detention services, the Office of the Sheriff provides bailiff services, security at the Airport, and patrols for County parks and expressways.

The District Attorney's Office plans, organizes, and prosecutes all criminal, juvenile and applicable ordinance violations in Milwaukee County. The District Attorney is a separately elected official of Milwaukee County. The District Attorney's Office also administers numerous federal and state funded grant programs that enhance the public safety of Milwaukee County residents.

The Medical Examiner investigates all deaths in which there are unexplained, unusual or suspicious circumstances such as homicides, suicides, accidental deaths, and all deaths in which there is no physician in attendance.

The House of Correction (HOC) receives and maintains custody of all sentenced prisoners in Milwaukee County for periods not exceeding one year. The House of Correction also provides programs of work release, rehabilitation, education, work, recreation and training. The division also processes and considers applications for parole. HOC operates a home detention program using electronic surveillance equipment and other systems of control.

- 5) **Public Works and Highways** in the General Fund consists of the Department of Transportation and Public Works (DTPW), Highway Maintenance, and Director's Office.

County-wide, the Department of Transportation and Public Works administers two County airports; the transit/paratransit system, transportation planning and engineering services; architectural, engineering and environmental services; highway maintenance; fleet management; and facilities management. DTPW is responsible for the maintenance of buildings and grounds owned by Milwaukee County. In 2008, the department was instrumental in the implementation of the Guaranteed Energy Savings Performance Contract pilot project to improve the County's energy efficiency. Participating departments' utility costs were reduced by approximately \$ 0.2 million in 2008. Highway

Maintenance maintains sixty-eight mile of freeways, ninety-nine centerline miles of state trunk highways and approximately eighty-seven centerline miles of county truck highways.

As stated above Fleet Management; Architectural, Engineering and Environmental Services; Transportation Services; and Facilities Management are under the Department of Transportation and Public Works for management purposes and are considered to be internal service funds of the County. These four internal services funds are consolidated into one fund for reporting purposes and are identified in the Comprehensive Annual Financial Report as "Public Works Services". The Public Works Services fund is reported as part of the governmental activities in the Government-wide Financial Statements and as part of the proprietary funds in the Fund Financial Statements.

- 6) **Health and Human Services** in the General Fund consists of the Department on Aging, the Department on Aging – Care Maintenance Organization, the Department of Health and Human Services (DHHS), DHHS – Behavioral Health Division and the DHHS - County Health Programs.

The Department of Health and Human Services (DHHS) provides a wide range of life-sustaining, life-saving and life-enhancing services to children and adults through age 60. Programs focus on providing services for delinquent youth, persons who are developmentally disabled, physically disabled, mentally ill, homeless, and those in need of financial assistance. Many of the services provided are mandated by State Statute and/or provided through a State/County contract. The Department of Health and Human Services consists of eight service areas including the divisions of Economic Support, Delinquency and Court Services, Disabilities Services, Housing, and Management Services. The Economic Support Division, which assists eligible people in obtaining Food Share (formerly called Food Stamps), Medical Assistance (Title 19) and child day care benefits. The division is also responsible for administering the State's BadgerCare Plus health program and specialized financial assistance programs. The Delinquency and Court Services Division provides custodial intake services, administers a wide range of juvenile justice programs and provides support staff for the operation of the Children's Court. This division operates a Juvenile Detention Center and also administers the following programs oriented to alleged and adjudicated delinquent youth: pre-dispositional secure/non-secure out-of-home placements, the First Time Offender program, post-dispositional placements, probation, and programs that are designed to divert youth from placement in state correctional facilities. The Disabilities Services Division provides human services that are targeted at populations with special needs, including

adults and children with physical and developmental disabilities and individuals who are homeless or experiencing a housing crisis. Services provided include case management for long-term support, residential services, work and day services, community treatment, community support, adult day care, fiscal agent services and service access and prevention. The services administered by this division allow these persons to live in the community and avoid institutional placement. The Division utilizes a Resource Center format to serve these clients. The Housing Division focuses on prioritizing the use of County housing resources to address the needs of persons with mental illness or other special needs. The division administers the following HUD funded programs: Shelter Plus Care, which links housing subsidies with case management for persons with mental illness; Safe Haven which provides transitional housing for formerly homeless persons with mental illness; Housing Choice Voucher program which assists clients in finding affordable housing and provides rent subsidies; and HOME/Home Repair, which provides low or no interest loans to low-income persons for home repairs and improvements. The Management Services Division provides contract administration, accounting and business support to the other DHHS divisions.

The Department on Aging plans and provides for the growing needs of Milwaukee County's large and diverse older adult population. Services are provided through the Department of Aging under the divisions of Area Agency Services, and Resource Center. Area Agency Services provides a network of support services to the aging population including the Senior Meal Program, contacts for the five senior centers in the County and provides a range of grants to community based agencies to provide specialized programming for elderly adults. This division also provides staff support to the Milwaukee County Commission on Aging which serves as the area's planning committee. The Resource Center serves as an information clearinghouse, provides eligibility assessments for person seeking assistance in any departmental program and acts as a point of entry for the Family Care Program.

The Care Management Organization (CMO) is a separately budgeted division of the Department on Aging. The County is required to maintain a separate and distinct accounting for this division under the State's Family Care program. The CMO is designed to provide an appropriate mix of community-based care and direct services through the State of Wisconsin's Family Care Program to prevent the inappropriate and costly institutionalization of older adults. The State's Family Care Program replaces the state's numerous long-term support programs with a single integrated long-term care entitlement program. Under Family Care, the CMO coordinates all long-term care services, including home and community based services and institutional services for

eligible elders in Milwaukee County who require publicly funded long term care services. The majority of the CMO program revenue represents a capitated rate payment per member per month from the State. The capitated rate payment is adjusted on an annual basis after an actuarial review of costs. Forty percent of client service costs of the CMO are controlled by Medicaid rate rules. The remaining sixty percent, which is not covered by Medicaid rates, is based on rates established by the department or by contracts with providers. Due to the capitated rate payment, the CMO is required to maintain reserves against potential cost deficits. These reserves were fully funded at the end of 2008. At the end of 2008 the program had approximately 6,598 clients.

The Department of Health and Human Services - Behavioral Health Division (BHD) provides care and treatment of persons with disorders related to alcohol and substance abuse as well as developmentally, emotionally and mentally ill adults, children and adolescents. The range of services provided by DHHS-BHD encompasses inpatient care (both short term and extended), outpatient care and day treatment. Acute hospital admissions are initiated by voluntary application or through legal detention methods such as court commitment. Extended care services are provided at federally certified, skilled nursing facilities and at facilities for the developmentally disabled. Day treatment is offered to patients who have progressed to the stage where inpatient hospitalization is no longer indicated, but who require more intensive treatment than is available in an outpatient facility. The Community Service branch provides both mental health and alcohol and other drug addiction services through contracts with community service providers or at community clinics.

The County Health Programs (CHP) division develops, implements and evaluates programs related to improving or providing for the health of Milwaukee County citizens and visitors. CHP creates and maintains innovative, high quality, community-based service through a variety of partnerships by utilizing a systematic approach for service integration and delivery. CHP is comprised of three areas of service: Administration, Emergency Medical Services (EMS) Program (Paramedics), and General Assistance Medical Program (GAMP). EMS (Paramedics) supports the provision of paramedic services in Milwaukee County. GAMP is the County's health care financing/delivery system for medically indigent persons residing within Milwaukee County. Local hospital systems and other care providers treat GAMP eligible clients and submit billings for services, through a third party administrator. Hospitals receive an interim cash settlement from the County for services, until the State of Wisconsin provides reimbursement under State and Federal funding programs.

- 7) **Parks, Recreation and Culture** includes the Department of Parks, Recreation and Culture, the Zoological Department, Milwaukee County University Extension Service and funding for the Milwaukee Public Museum. The Department of Parks, Recreation and Culture administers and operates the Milwaukee County Park System that includes 15,000 acres and encompasses 153 parks and parkways. The Parks System operates 15 golf courses, numerous athletic fields, numerous facilities for indoor and outdoor swimming, two family aquatic parks, two splash pads, 37 wading pools, an indoor ice arena, a sports complex, two public marinas, two community centers, a 100-mile recreational bike trail, a horticultural facility, a nature center and a botanical garden. The Zoological Department operates a zoo on a 200-acre site in western Milwaukee County. The Zoo's collection and exhibits are acquired with the assistance of private funding.

Business-type Activities:

- 1) The **Airports** are an enterprise fund that is classified as a business-type activity in the Government-wide financial statements. Milwaukee County operates two airports: General Mitchell International Airport (GMIA) and Lawrence J. Timmerman Airport. User fees support both of these airports. Airport administrative, maintenance and operational cost reimbursement are guaranteed through contractual agreements with the major airline carriers serving GMIA. Growth in flights and passenger traffic from GMIA, over the past several years has led to the need for additional parking at the Airport. Milwaukee County issued \$ 83.6 million of revenue bonds in 2000 for the building of an addition to the existing parking structure. These were the first revenue bonds issued by the County. The parking revenues were estimated to be sufficient to pay the bonds, but the bonds were also supported by the signatory airline lease agreements. In subsequent years, the County issued revenue bonds to fund improvements to the C and D concourses, finish the parking structure, repair the Bus/Limousine Queue area, remodel the E concourse stem and GMIA baggage claim area. Security measures put in place after the events of September 11, 2001 will continue for the foreseeable future. Security costs represent 11.6 percent of the Airports 2008 budget.
- 2) The **Milwaukee County Transit/Paratransit System** is an enterprise fund activity that is managed by Milwaukee Transport Services, Inc.; a private, non-profit corporation. The corporation uses facilities and equipment owned and provided by the County to transport passengers by bus to various locations within the County. The Paratransit system is also operated by Milwaukee Transport Services. The Paratransit system provides transportation using private vendors for passengers who meet the paratransit eligibility requirements. As stated above under Public Works and Highways, the County's Department of Transportation and Public Works (DTPW) administers both the transit and paratransit systems. DTPW

also oversees and administers federal and state capital grants for the transit system. DTPW - Transportation Services Division, an internal services fund, assists with the acquisition of capital equipment and facilities.

Countywide Financial Activities

- 1) **Employee Benefits:** In response to the concerns raised about the increased level of benefits that were granted to employees and elected officials in 2001, the County Board voted in February 2002 to change certain benefits. The 2002 changes included the level of payout at retirement for earned sick leave benefits for non-represented positions. Depending on hire date, sick leave at retirement is either paid in cash or is used to buy retiree health insurance. Between 2005 and 2007, union labor agreements were negotiated to reduce future *cash payouts* at retirement for sick leave earned. Prior to the change, all employees were entitled to full payout at retirement of earned sick leave benefits. Sick leave for union members credited at retirement for retiree *health insurance payments* is generally still credited at 100 percent.

The benefit enhancements, accelerated retirement rate, and investment losses have caused a severe strain on the County's unfunded pension liability and pension expense. In 2001 and 2002, the County was contributing \$ 2.65 million and \$ 2.58 million respectively, to the Employee Retirement System (ERS). For 2004, 2005, and 2006, the County contributed \$ 35.1 million, \$ 37.8 million and \$ 27.4 million, respectively to ERS. The 2006 contribution was below an actuarial recommended contribution of \$ 45.9 million, based on an 8.0 percent rate of return on investments. The 2007 contribution was \$ 49.3 million, which approximated the actuarial contribution requirement. The 2008 contribution was \$ 39.3 million, which was \$ 13.8 million short of the actuarial recommended contribution. Pension costs are expected to continue to increase.

In 2008, legislative approval was received that authorizes the County to issue pension obligations bonds to help fund its rising pension obligation costs. In March 2009, the County issued \$ 265 million of Taxable General Obligation Pension Promissory Notes, Series 2009A and \$135 million of Taxable Pension Notes, Series 2009B. The bonds are being used to fund a portion of the County's unfunded prior service liability for its Employees' Retirement System and are intended to stabilize the County's annual contribution levels to the ERS.

The County has begun to successfully reduce certain pension benefits and contracts with most County unions effective in 2005. The contracts include the elimination of the pension eligibility Rule of 75 and the pension backdrop program.

The County has aggressively moved to control the growth in employee health care costs. Some of the steps taken have been to move to a self-insured health plan and negotiate changes to health care deductibles and co-payments. Under the self-insured plan, which is accompanied by a stop-loss provision, the County is better able to control its costs versus the contracted rates under the fully insured health care option. The impact of these changes has resulted in a material decrease in the rate of health care cost increases for the period from 2006 to 2008 of four percent, zero percent and eight percent respectively.

B) FINANCIAL INFORMATION

Internal Accounting Controls

County management is responsible for establishing and maintaining an internal control structure designed to provide reasonable, but not absolute, assurance that County assets are safeguarded against loss from unauthorized use or disposition and assurance that the County financial records are free from material misstatement and accurately account for the County's assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. The evaluation of costs and benefits requires estimates and judgements by management.

Milwaukee County's internal control structure is supported by written policies and procedures. It is continually reviewed, evaluated and modified to meet current needs. This internal control structure is strengthened by the Milwaukee County Department of Audit. Under Milwaukee County Ordinances and Wisconsin Statutes, the Department of Audit is an extension of the legislative branch of Milwaukee County and provides the County Board of Supervisors with consistent independent review of County operations. The Department of Audit is responsible for overseeing the external audit of the financial statements, reviews of internal accounting controls, administrative controls, compliance with applicable laws and regulations, economic efficiency of operations, and effectiveness in achieving program results. The Department of Audit performs audits in accordance with generally accepted government auditing standards.

Budgetary Process

Milwaukee County has an executive budget process for the preparation of the annual operating and capital budgets. The Fiscal Affairs Division of the Department of Administrative Services provides the technical assistance required by the County Executive to review budget requests submitted by County departments and agencies. The Fiscal Affairs Division compiles departmental budget requests, along with non-departmental revenue projections, debt service requirements, capital improvements, contingency requirements and the required tax levy. It reviews areas where changes may be considered and transmits its findings to the County Executive. The County

Executive holds public hearings with respect to the requests, meets with departments and submits a recommended budget to the County Board on or before October 1st of each year. Subsequent to the receipt of the budget from the County Executive, the County Board's Finance and Audit Committee reviews the County Executive's budget at public meetings. On the Monday following its regularly scheduled meeting on the first Thursday in November, the County Board acts on the amendments and recommendations submitted by the Finance and Audit Committee, as well as amendments submitted by individual Board members. The County Board adopts a final budget, subject to any vetoes by the County Executive, and levies taxes to support the adopted budget.

Budgetary Controls

Budgetary control is maintained by a formal appropriation and encumbrance system. Encumbrances are made against appropriations prior to the release of a purchase order to a vendor, or prior to the issuance of a check when a liability is incurred without a purchase order. Liabilities that exceed appropriation balances are not paid until an increased appropriation is made available.

During the year, departments may request transfers of appropriated dollars between departments or from an unallocated contingency budget. All such transfers require the approval of the County Board and County Executive. If a transfer is to be made within a department, approval of the transfer may not require County Board and County Executive approval.

Encumbered appropriations are carried forward at the end of the year by means of encumbrance reserves. These reserves are restored to departmental appropriation accounts in the following year. Expenditures are then recorded when the services or materials are received.

For County capital projects, any unencumbered appropriations and the associated unrecorded revenue that is still available at the end of the year may be "carried over" to the subsequent year. A report of unappropriated budget dollars and unrecorded revenues are reported to the County Board by capital project number. The County Board and County Executive will then review the report and make any modifications to "capital carryover" requests. The final result is the establishment of a carryover reserve for capital projects. Similar to encumbrance reserves, these reserves are restored to the departmental appropriation account and revenue budget in the following year.

County Tax Rate Limit

Section 59.605 of the Wisconsin Statutes imposed a property tax rate limit on Wisconsin counties, effective August 12, 1993. Separate limits were imposed for operating levy rates and debt service levy rates. The baseline for the rate limit was the 1992 actual levy rate adopted for the 1993 budget. Reductions in State shared

revenues and transportation aid are among the penalties established by State Statutes for failing to meet the operating and debt service limit requirements.

The property tax rate established for general County operating purposes and special administrative levies, as part of the 1993 adopted budget, was \$ 4.08 per \$ 1,000 of equalized value. The maximum rate may only be increased if services are transferred between governmental units (transfers to other governmental units reduce the maximum rate), or if a referendum is approved by a majority of local electors to allow for an increase in the maximum rate. For 2008, the operating tax rate was \$ 3.05 per \$ 1,000 of equalized value.

The County adopted a debt levy rate of \$ 1.42 per \$ 1,000 of equalized value as part of the 1993 budget. The conditions under which the debt service rate may be increased include: 1) a referendum is held that approves the debt issuance; 2) the County Board of Supervisors adopts a resolution that sets forth its reasonable expectation that the issuance of the debt will not cause the County to increase the debt levy rate; 3) the issuance of the debt was authorized by an initial resolution adopted prior to the effective date of the rate limit; 4) the debt is issued for certain specified purposes, including financing regional projects under Section 67.05 (7)(f); 5) the debt is issued to fund or refund outstanding municipal obligations; or 6) the County Board of Supervisors adopts an initial resolution authorizing the issuance of the debt by a vote of at least three-fourths of the members-elect of the County Board. In accordance with the conditions outlined above, the County levied a debt levy rate of \$ 0.83 per \$ 1,000 of equalized value for the 2008 budget.

The rate limit also prohibits borrowing for "operating expenses". The statute defines "operating expenses" as "wages, salaries, fringe benefits, materials, supplies, contractual services, equipment with a useful life of less than one year and other costs specified by the Department of Revenue by rule".

Debt Administration

The Finance and Audit Committee of the County Board monitors all anticipated borrowing plans of the County on a continuing basis. In 1994, Milwaukee County revised existing policies and established new policies that directly and indirectly affected its borrowing practices. Some of the changes included the development of guidelines for maximum debt burdens, modifications to the procedures for accepting competitive bids, and the maximum length of maturity. In addition, the County Board has adopted policies limiting the amount of corporate purpose bonds issued by the County to finance capital projects. Under this policy, corporate purpose bond issuance could not exceed a maximum of \$ 30 million starting with fiscal year 2008 and in each subsequent fiscal year could be increased by no more than three percent over the principal amount of the preceding year's issue. This cap only applies to corporate purpose bonds that finance the capital improvements program; it does not apply to other debt issued by the County.

Wisconsin Statutes limit the County's direct general obligation borrowing to an amount equivalent to five percent of the equalized valuation of taxable property. At December 31, 2008, the County had \$ 437.3 million of general obligation debt, representing 12.8 percent of the \$ 3.4 billion debt limit. The debt limit is based upon equalized value of County property of \$ 68.1 billion.

Approximately 89.0 percent of the County's general purpose obligations will be retired within ten years. County general purpose obligations do not include revenue bonds issued by the County with respect to the airports. For 2008, total debt of the County, which includes general purpose and Airport revenue bond obligations, was \$ 614.0 million. As of December 31, 2008, approximately \$ 181.7 million or 29.6 percent of the County's outstanding general purpose and revenue debt is for the Airports. Pursuant to the lease agreements with the airlines, signatory airlines are obligated to pay all principal and accrued interest payments for debt issued on behalf of the Airports.

Milwaukee County has maintained its ratings from Fitch IBCA, Moody's Investors Service, and Standard & Poor's Corporation on general obligation bond issues. Any explanations of the significance of ratings may be obtained from the rating agencies.

Fitch IBCA
AA

Moody's Investors Service
Aa3

Standard & Poor's
AA

In September 2003, the County authorized, but did not issue, general obligation promissory notes in the principal amount of \$14.2 million pursuant to the Credit Assistance agreement with a local company. These promissory notes would be issued in the event that the company defaults on Industrial Revenue Bonds issued within the last ten years to construct maintenance facilities for the company. In return for the credit assistance, the County obtained a mortgage on these maintenance facilities and \$ 4.9 million of debt reserves. Community Development Block Grant funds, for economic development, from the State of Wisconsin provided \$ 4.0 million of the reserve funds. These reserve funds accrue interest and total \$ 5.9 million as of December 31, 2008.

In 2004, the County provided a guarantee totaling \$ 1.0 million of a \$ 3.2 million loan for a non-profit corporation. The loan was used for the purchase of a building. This guarantee is now at \$ 0.2 million, based on terms of the original agreement.

On June 1, 2008, the County issued \$ 30.860 million of General Obligation Corporate Purpose Bonds. These bonds were used for various County capital improvement projects including highways and bridges, park improvements, building improvements and vehicles.

Cash Management and Investment Policies

Milwaukee County's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The County may purchase investment securities at prevailing market rates as allowed by Wisconsin State Statutes (S.66.0603(1m)) and Milwaukee County Ordinance. To the extent possible, the County attempts to match its investments with anticipated cash flow requirements. In the absence of individual security maturity limitations specified in the State Statutes, the County does not directly invest in securities maturing more than ten years from the date of purchase. County policy requires that direct investment in public depository institutions and securities is further limited to a maximum investment, per institution of \$ 0.5 million at one time, unless an acceptable form of collateral, surety, or other guarantee exists assuring the principal repayment to the County. The County's investment policy limits the use of reverse repurchase agreements to transactions with commercial banks located in the State of Wisconsin to a period of time no longer than 14 days. The County enters into reverse repurchase agreements for cash flow purposes only.

The Pension Trust fund's available cash is held separately by an external trustee and is invested in various types of investments deemed appropriate by the Pension Board.

Risk Management

As stated in Note 10 in the notes to the financial statements, the County uses a Risk Management Fund, which is presented as an internal service fund, to account for the financing of uninsured risks of loss, loss control, and insurance-related activities of the County and its employees. The Risk Management Fund minimizes risk through the use of various risk control strategies. The County is self-insured for worker's compensation. County management believes that assets of the Risk Management Fund together with the commercial insurance companies' coverage will be adequate to meet insurance claims as they come due.

Pension Trust Fund Operations

The Pension Trust Fund ("Retirement System") accounts for the activities of the Employees' Retirement System ("ERS") and the OBRA 1990 Retirement System ("OBRA"). The ERS is a non-contributory single employer defined benefit pension plan that covers substantially all of its full-time employees. The OBRA (Omnibus Budget Reconciliation Act) 1990 Retirement System is a non-contributory single employer defined benefit pension plan that covers the County's seasonal and certain temporary employees (see Note 15 to the financial statements). For investment purposes, assets of OBRA are commingled with the assets of the ERS. A complete financial report of the Retirement System is available from the Pension Board that includes financial statements and required supplementary information.

Long-term Financial Planning

In January 2009, the Department of Administrative Services purchased forecasting software and related consulting services. County staff from various divisions participated in developing the forecasting model and the key financial assumptions. Ten years of historical data was analyzed to assist in developing the assumptions. Forecasting methods include regression, use of specific data where available, and use of historical average annual changes. Each year, the actual data will be updated and assumptions will be refined. Standard forecasting schedules will be updated and provided to policy makers on a regular basis. The forecasting data will also be used during budget development to provide policy makers with information regarding the long-term financial impact of budget decisions. The initial forecasting model is expected to be completed by the end of July 2009.

C) OTHER INFORMATION

Independent Audit

The accounting firm of Baker Tilly Virchow Krause, LLP was engaged to perform an audit of the basic financial statements and to issue a report on internal controls and compliance with laws and regulations for the County. The auditors' report on the basic financial statements is included in this comprehensive annual financial report.

The selection of the independent audit firm was administered by the Department of Audit. A request for proposal was issued to solicit proposals from eligible firms. The proposals received by the County were reviewed and ranked by the committee. The County Board and County Executive then approved the contract of the successful firm.

The audit was performed to provide reasonable assurance that the financial statements are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended December 31, 2008 are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditors' report is presented as the first component of the financial section of the CAFR.

The accounting firm of Coleman & Williams, Ltd. has issued reports on its audit of Federal and State grants known as the Single Audit Report. The Single Audit Report has been issued under separate cover.

Certificate of Achievement

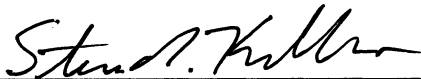
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report for the year ended December 31, 2007. This was the twenty-ninth consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

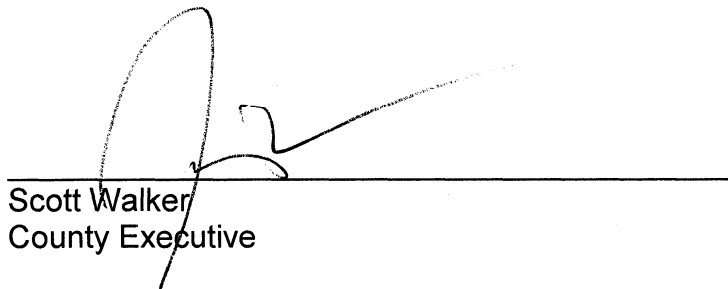
Acknowledgements

The preparation of this report could not have been accomplished without the dedicated service of the entire staff of the Department of Administrative Services, Fiscal Affairs Division, the assistance of personnel in the various departments and through the competent service of the independent public accountants as well as the Department of Audit. We would like to express our appreciation to all persons who assisted in its preparation.

Respectfully submitted,



Steven R. Kreklow, Fiscal and Budget Administrator
Department of Administrative Services



Scott Walker
County Executive

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Milwaukee
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "K. L. R.", is positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen", is positioned above the title "Executive Director".

Executive Director

COUNTY OF MILWAUKEE ORGANIZATIONAL CHART 2008

